

1 DAUFUSKIE ISLAND UTILITY COMPANY, INC.

2 DOCKET NO. 2011-229-W/S

3 Testimony of Gary C. White

4 Before the South Carolina Public Service Commission

5 Testimony Prepared: April 18, 2012

6 Hearing Date: May 30, 2012

7

8 **Q. Please state your name and business address.**

9 A. Gary C. White, 3 Sleepy Hollow Drive, Clifton Park, New York.

10

11 **Q. What is your occupation?**

12 A. I am Vice President and the Director of Accounting with Guastella Associates,
13 LLC a firm that provides utility consulting services primarily for municipal and
14 investor-owned water and wastewater utilities.

15

16 **Q. Please state your educational background and professional experience.**

17 A. I received a Bachelor of Science in Business Administration from Valparaiso
18 University in 1972. I graduated with an Accounting major and Finance minor. I
19 have also completed a course in utility rate regulation sponsored by the National
20 Association of Regulatory Utility Commissioners ("NARUC"), the Florida Public
21 Service Commission and the University of Utah.

22 I was employed in the unregulated, private industry sector between 1972
23 and 1984 with responsibilities in various areas of business management,

1 accounting and finance. Since 1984, my experience has been concentrated in the
2 areas of management, valuation and rate setting for water and sewer utilities.
3 During this period, I was responsible for the rate regulation department of General
4 Development Utilities, Inc. which was the largest investor-owned water and sewer
5 utility in Florida. I was subsequently employed as General Manager of Country
6 Knolls Water Works, an investor-owned utility in upstate New York. I managed
7 all of the utility's regulatory, accounting and operations activities on a day-to-day
8 basis. I began my employment with Guastella Associates in 1992.

9 My experience in utility matters includes the preparation of cost of service
10 and revenue requirement analyses for both private and municipal utilities. I have
11 prepared cost allocation, connection charge, and rate design studies; revenue
12 requirement forecasts; population growth and system capacity projections; market
13 value analyses and various operations and management evaluations. I have
14 provided rate, regulatory and system valuation services for clients in Alaska,
15 Arizona, California, Connecticut, Florida, Georgia, Illinois, Indiana, Maine,
16 Maryland, Massachusetts, Montana, Nevada, New Hampshire, New Jersey, New
17 Mexico, New York, Ohio, Pennsylvania, Rhode Island, and South Carolina. I
18 have served as an instructor at several seminars for developer-related water and
19 sewer utilities, sponsored by Florida State University and the University of
20 Florida, and at a utility rate seminar conducted by the New England Chapter of
21 the National Association of Water Companies.

1 **Q. How long have you practiced in the area of utility management and rate**
2 **regulation?**

3 A. I have been involved in the utility industry for over twenty-seven years.
4

5 **Q. Before what regulatory agencies and municipal jurisdictions have you**
6 **presented expert testimony?**

7 A. I have testified as an expert witness in regulatory hearings in Connecticut, Florida,
8 Maryland, New Jersey, New York, Pennsylvania and South Carolina.
9

10 **Q. Are you a member of any professional associations?**

11 A. I am a member of the American Water Works Association.
12

13 **Q. Please describe the nature of your assignment in connection with this**
14 **proceeding.**

15 A. Guastella Associates was retained as consultants to Daufuskie Island Utility
16 Company, Inc. ("Company"). My assignment was to examine the financial
17 information and operating data of the utility, and to coordinate my work with that
18 of John F. Guastella to prepare an analysis of the Company's revenue requirement
19 for both its water and wastewater operations.
20

1 **Q. What test periods do you use?**

2 A. Our analyses are based on the historical test year ended June 30, 2011 financial
3 information and a pro forma rate year adjusted for known and measurable changes
4 through the period ending June 30, 2012.

5

6 **Q. Would you briefly describe the results of your rate study?**

7 A. Yes. The study produced a total revenue requirement of \$777,671 for the water
8 system and \$708,579 for the wastewater system filing which covers the pro forma
9 cost of providing service based on the projected June 30, 2012 operations. The
10 revenue requirement reflects a \$383,334 increase over existing water rates or a
11 97.2% increase in water revenues, and a \$350,864 or 98.1% increase in sewer
12 revenues. The \$1,486,250 of total revenue, water and wastewater combined,
13 would cover pro forma operating expenses of \$943,374 and provide net operating
14 income of \$542,917 or an 8.34% rate of return on the Company's \$6,509,309 rate
15 base investment.

16

17 **Q. Have you prepared schedules that summarize your rate analysis?**

18 A. Yes, I will briefly describe all of the schedules submitted in support of the rate
19 increase and Mr. Guastella's testimony addresses some of the schedules and
20 certain issues within this rate application.

21

1 **Q. Please explain Schedule A-1**

2 A. Schedule A-1 shows the Company's water and wastewater comparative balance
3 sheets for calendar years 2007 through 2010 and the twelve months ended June
4 30, 2011. This schedule reflects the assets, liabilities and equity balances as
5 recorded to show the Company's financial position.

6
7 **Q. Please describe the contents of Schedule A-2.**

8 A. This schedule contains the individual water and wastewater system's comparative
9 annual income statements for the 12 month periods ended calendar years 2006
10 through 2010 and the period ended June 30, 2011. The amounts shown on
11 Schedule A-2 reflect the actual level of income generated by the water and
12 wastewater operations of the Company.

13
14 **Q. Please explain Schedule A-3.**

15 A. Schedule A-3 shows the Company's capital structure and rate of return. The
16 schedule shows a hypothetical capital structure based on a \$3.5 million proposed
17 debt issuance and the balance of equity capital reconciled to the Company's rate
18 base. A cost rate for debt is estimated at 6.5% and the rate increase would
19 generate a rate of return on equity of 10.5% or an overall rate of return of 8.34%.

20

21

1 **Q. Would you please describe Schedule A-4?**

2 **A.** Schedule A-4 presents the overall operating statement for the combined water and
3 wastewater systems. It simply reflects the combined results of Schedule W-C, the
4 water operating statement, and Schedule S-C, the sewer operating statement.

5
6 **Q. Please describe Schedule B?**

7 **A.** I will provide a generic description of the remaining schedules as each lettered
8 schedule represents similar information applicable to both the water and the sewer
9 rate filings. In other words, Schedules W-B and S-B sets forth the computation of
10 the water and sewer rate base, respectively. These schedules show the rate base
11 components for the test year ended June 30, 2011, adjustments and pro forma
12 year-end June 30, 2012 rate year balances that are used to develop the Company's
13 revenue requirement.

14
15 **Q. Would you please describe Schedule B.1, B.2, B.3 and B.4?**

16 **A.** Schedule B.1 summarizes and describes the pro forma adjustments made to the
17 rate base calculation shown on Schedule B.

18 Schedule B.2 shows the detail of Plant in Service by primary plant account. It
19 begins with the original cost of plant in service as of June 30, 2011 and brings the
20 accounts forward through pro forma June 30, 2012 balances.

21 Schedule B.3 contains Accumulated Depreciation by primary plant account, along
22 with the adjustments necessary to formulate the pro forma June 30, 2012
23 balances. The development of annual depreciation accruals for the pro forma

1 period are supported and detailed on Schedules W-C.3 (water) and S-C.3 (sewer).

2 Schedule B-4 shows the balances for Contributions-in-Aid-of-Construction

3 (CIAC) and the accumulated amortization of CIAC as of June 30, 2011 and

4 rolled-forward to reflect the Tap Fee (CIAC) related to projected customer growth

5 through the June 30, 2012 rate year.

6 The balances from Schedule B.2, B.3, and B.4 are brought forward to the rate

7 base, Schedule B.1.

8
9 **Q. Please describe the working capital allowance and average unamortized**
10 **balance on Schedule B.1.**

11 A. The working capital allowance is based on a modified lead/lag study applicable to
12 the Company's quarterly billing, in arrears. The level of allowance reflects an
13 average of 75 days (1/5th of a year) of lag time representing the mid-point of the
14 90 day period (or 45 days) over which service is provided prior to billing and an
15 average of 30 days to receive payment from the customers after the end of the
16 period. This lag represents a capital requirement placed on the Company and is a
17 positive rate base adjustment.

18 The average unamortized balance represents the Company's average
19 balance of unrecovered rate case expense. Because the expense is an "up-front"
20 or prepaid cost, the amortization creates a delay in the recovery of the full
21 amount; the unrecovered portion of the expense becomes a capital requirement of
22 the utility, and a positive rate base adjustment in order to recognize the associated
23 carrying cost.

1

2 **Q. Would you please describe Schedule W-C and S-C?**

3 A. Yes, these schedules contain the pro forma operating statements or income
4 statements for water and sewer, respectively. Schedule C shows the Company's
5 operating results for the historical twelve months ended June 30, 2011, and also
6 shows the pro forma adjustments and operating results for the projected rate
7 period ending June 30, 2012 under present and proposed rates. These schedules
8 summarize the Company's cost of operations, resultant net operating income and
9 rate of return on the Company's rate base investment.

10 The numbered adjustments on Schedules W-C and S-C reference the explanations
11 of those adjustments provided on Schedules W-C.1 and S-C.1.

12

13 **Q. Would you briefly describe the adjustments on Schedule C.1?**

14 A. Yes. Adjustments 1(a) through 1(j) for water and adjustments 1 (a) through 1(h)
15 for sewer reflect the pro forma changes made to operating revenue, by customer
16 class, under present rate and proposed rates. The revenue adjustments are
17 supported by the billing analyses contained on Schedules E, E.1 and E.2.

18 Adjustments 2 through 13 reflect the pro forma changes made to operation and
19 maintenance expenses. An explanation is provided for each adjustment.

20 Adjustment (14) reflects the annual depreciation accrual, determined by applying
21 depreciation rates to the pro forma levels of plant in service.

22 Adjustment (15) reflects the annual amortization expense of the unrecovered
23 current rate case costs.

1 Adjustment (16) reflects the revenue tax applicable to pro forma revenues under
2 present rates.

3 Adjustment (17) reflects the property tax adjustment relative to anticipated
4 correction to the local County Tax rolls relative to taxable asset values.

5 Adjustment (18) reflects the payroll tax expense associated with pro forma wages.

6 Adjustment (19) calculates the state and federal income tax on pro forma taxable
7 income under present rates.

8 Adjustment (20) shows the impacts of the increased revenue, under proposed
9 rates, on the bad debt expense component.

10 Adjustment (21) increases revenue taxes to reflect pro forma revenue levels under
11 the proposed rates.

12 Adjustment (22) calculates the state and federal income tax on pro forma taxable
13 income under the proposed rates.

14
15
16 **Q. Please describe Schedule C.2.**

17 A. This schedule reflects the individual operating expense items by account as
18 recorded per books for the twelve months ended June 30, 2011.

19
20 **Q. Please describe Schedule C.3.**

21 A. Schedule C.3 reflects the annual depreciation expense by individual plant
22 accounts. This schedule shows the pro forma rate year depreciation expense. It
23 should be noted that the depreciation methodology used on this schedule complies

1 with the methodology approved in the Company's last rate Order. It should be
2 further noted that the Company is requesting a change in annual depreciation rates
3 to reflect more conventional service lives as reflected on this schedule.
4

5 **Q. Please describe Schedule D.**

6 A. This schedule shows the capital structure, including debt and equity cost rates and
7 rates of return for each of the utility systems.
8

9 **Q. Please explain the billing analyses presented on Schedules E, E.1 and E.2.**

10 A. Schedule E sets forth the billing analyses for the historical twelve-month period
11 ended June 30, 2011.

12 Schedule E.1 sets forth the pro forma billing analyses under present rates and
13 includes the projection of rate year customer growth.

14 Schedule E.2 applies the proposed rates to the same billing data as appears on
15 Schedule E.1, thus producing revenue equal to the pro forma revenue
16 requirement.

17 The billing analyses provide the detailed billing data for the revenues presented
18 on Schedule W-C and Schedule S-C.
19

20 **Q. Briefly explain each of the Schedules F.1 and F.2.**

21 A. Schedule F.1 reflects the water and sewer revenue requirement calculations. It
22 shows the revenue requirement components for the pro forma rate year analysis.

1 Schedule F.2 contains the water and sewer rate design schedules. The proposed
2 rates are designed to result in an across-the-board increase for all customer
3 categories. The rates developed on this schedule, when applied to the billing
4 units, will generate the appropriate level of income as demonstrated on Schedule
5 E.2.

6

7 **Q. Does this conclude your testimony?**

8 A. Yes.